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UNCLAS SECTION 01 OF 04 BEIJING 007349

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SUBJECT: WHA A/S SHANNON DISCUSSES LATIN AMERICA WITH
CHINESE BUSINESSMEN AND SCHOLARS

REF: BEIJING 6849 AND BEIJING 01810

SUMMARY

1. (SBU) Over dinner with Chinese businessmen and academics on April 13, WHA Assistant Secretary Thomas A. Shannon explained that the United States is launching consultations with China on Latin America as part of a broader dialogue. The Chinese executives explained that their firms operate in Latin America on a commercial basis and do not engage in politics. China's technology and need for natural resources complement Latin America's rich resource base, and lay the basis for economic cooperation. The executives said they could not stop President Chavez from playing the China card,⁸ but they did not like it. A Chinese oil executive noted that his firm received no special treatment from the Venezuelan authorities. End Summary.

Consulting with China

12. (SBU) Chinese Academy of Social Science (CASS) Institute of Latin American Studies Deputy Director Professor Jiang Shixue reported that Americans he encounters are intensely interested about China's relationship with Latin America. Jiang said he was mobbed by U.S. reporters during a conference at which he spoke in Miami in late 2005, and his picture featured prominently in the Miami press. China Institute of Contemporary International Relations (CICIR) Division of Latin American Studies Director Professor Dr. Wu Hongying welcomed A/S Shannon's visit as a milestone.

13. (SBU) A/S Shannon explained that his trip, which represents the first USG/China consultation on Latin America, is part of the larger strategic dialogue with the Chinese led by Deputy Secretary of State Robert Zoellick. The purpose of the consultations is to identify areas of shared interests, and solicit China's cooperation in promoting trade, political stability, and open markets at a time when Latin America is undergoing significant political changes. Such cooperation will help dispel suspicions about China's intentions in the area.

Chinese Firms Focus on Finding Profitable Ventures

14. (SBU) China National Petroleum Corporation (CNPC) Vice President Zhou Jiping stressed the global nature of CNPC's operations, with offices in 22 countries and 58 international projects including Venezuela, Ecuador, Peru and Mexico. Zhou

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explained that since U.S. and other large western oil firms have little interest in "marginal" oil fields, CNPC was able to secure such a small field in Venezuela in 1998. Using Chinese technology, CNPC was able to increase production from 4,000 barrels per day (bpd) to 40,000 bpd. In Peru, CNPC took over a 120-year old field that U.S. firms had abandoned and increased production from 600 bpd to 7,000 bpd (See Beijing 1810). He voiced some concern about political stability in Latin America, but said Chinese firms like CNPC have to go where the resources are. CNPC's discussions with interlocutors in Latin America focus on trade, not politics.

15. (SBU) Baosteel Group Corporation Business Development Department Director Dr. Lin Li said Baosteel has interests in Brazil and Venezuela. China imports about 10 million tons of iron ore from Brazil, but demand in China is great. Baosteel would like to expand its operations. Baosteel echoed CNPC's view that its interaction with Latin America focuses on business, not politics.

16. (SBU) China Minmetals Senior Vice President Xu Siwei stressed that Minmetals is in Latin America to maximize returns for its investors. It's a win-win endeavor for both China and Latin America. Minmetals interests in ferrous and non-ferrous metals include iron, magnesium, copper, tin, aluminum, and antimony. Minmetals has exported USD200 million worth of mining equipment to Brazil. China Minmetals Non-ferrous Metals Company, Ltd. Vice President Peng Pugang said that Minmetals is a global enterprise with 50 branches. Europe, North America, and East Asia are its key markets. One third of Minmetals employees have overseas experience, Peng said. Chinese technicians often are able to work well with poorly educated or equipped workers, like those in the highlands of Bolivia.

United States as Partner, Market for Chinese Firms

17. (SBU) Minmetals VP Peng said that Minmetals has a 30-year relationship with Chevron, with the two firms partnering to produce bauxite in Jamaica for the U.S. market. In Bolivia, Minmetals is developing tin and antimony to supply the U.S. market. Such examples show that an important part of Minmetals' activities have a North American focus, Peng said.

U.S. firms' high technology complements Chinese firms' low labor costs.

¶8. (SBU) CNPC VP Zhou reinforced this point, saying that he was meeting with executives from Chevron the following day to discuss cooperation in Latin America. Zhou recounted how Chevron had helped CNPC get established in Papua New Guinea in the early 1990's.

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¶9. (SBU) A/S Shannon welcomed such news of Sino-American cooperation in Latin America. He encouraged the Chinese businessmen to make this cooperation known to audiences in North America.

Chinese Comment on Chavez and the "China Card"

¶10. (SBU) CASS Professor Jiang stressed that China had not encouraged President Chavez to play the "China card," and did not appreciate it. "Gifts" like the F-16s Chavez had at one time alluded to passing to China are something the Chinese would not accept. The other Chinese academic and business guests concurred. Jiang asserted that Venezuela spends more to win the hearts and minds of Latin Americans with economic aid than the United States.

¶11. (SBU) CNPC VP Zhou deplored Venezuela's decision to make foreign oil companies change their current service contracts for 30 percent minority stakes in joint venture companies, but said foreign oil firms had no choice but to accept. Likewise, Venezuela's decision to increase the tax rate from 25 percent to 30 percent or even to 50 percent was not good for the investment climate, but foreign firms had no alternative. U.S. firms had complained, but CNPC resigned itself to the new measures as part of a regional trend. CNPC received no special treatment from the Venezuelan Government, he noted.

¶12. (SBU) Zhou confirmed that there are discussions between CNPC and the Venezuelan authorities about building a pipeline across Colombia to the Pacific. Zhou stressed that CNPC had not invited this "China card," and pointed out that the economic feasibility of the project and the ability to obtain transit rights were open to question.

Participants

U.S. Side

- ¶1. Mr. Thomas A. Shannon, WHA Assistant Secretary
- ¶2. Mr. David Sedney, DCM (host)
- ¶3. Mr. John S. Creamer, Senior Executive Assistant
- ¶4. Mr. Christopher Beede, Acting Economic Minister Counselor
- ¶5. Mr. Eric Madison, Econoff (note taker)
- ¶6. Mr. Paul Kreutzer, Poloff
- ¶7. Mr. James Brown, language officer

Chinese Side

- ¶1. Mr. Xu Siwei, China Minmetals Senior VP
- ¶2. Mr. Peng Pugang, China Minmetals Non-Ferrous Metals VP

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- ¶3. Mr. Zhou Jiping, China National Petroleum Corp. VP
- ¶4. Ms. Wu Hongying, Phd., CICIR Research Professor
- ¶5. Mr. Lin Li, Phd., Baosteel Group Corp. Business Development Director
- ¶6. Mr. Jian Shixue, ILAS CASS Deputy Director

¶13. (U) The WHA delegation has cleared this report.

